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SUBJECT: EGYPT TRIES TO GET SMARTER IN DELIVERING FOOD
SUBSIDIES

¶1. (U) Summary: The Egyptian government has expanded its smart card pilot for the delivery of subsidized food products. According to the Ministry of Social Solidarity (MSS), which is responsible for the delivery of subsidies, it has expanded its pilot smart card program, which was first piloted in Suez, to eight governorates and plans to complete its roll-out throughout the country by the end of 2009. According to the GOE, the smart card system is allowing the government to collect improved data on the demand for subsidies while at the same time helping realize a 20% cost savings as a result of improvements in the supply-chain. The improved data and infrastructure of this program will certainly help modernize the system that has been in place for decades. Nevertheless, the subsidy system remains badly flawed and does a poor job of targeting the most needy. Serious structural change will require tough choices and political will which still appears a long way off. End Summary.

¶2. (U) Noha Kaptan, Information Infrastructure advisor to the Minister of Social Solidarity (MSS), told Econoff that the GOE ration smart card pilot had been expanded to eight governorates in Upper Egypt and the Delta and that the government planned to complete the smart card roll-out throughout the country by the end of 2009. An estimated 11 million households, representing more than 50 million Egyptians, are eligible for and participate in Egypt's food ration program. This program provides substantial discounts of between 50-90% on a basket of core grocery products. These products include rice, sugar, tea, cooking oil, lentils, and pasta.

¶3. (U) The new smart cards will ultimately replace the paper ration card system that has been in place for over half a century. With a paper ration card, record-keeping is done by the individual grocer by hand in a ledger book. When a subsidized product is sold, the shopkeeper writes the customer and purchase details in the ledger, and the entry is countersigned by the customer. At the same time, the grocer signs the customer's paper card to indicate that they have received their monthly allotment. Supply and demand were rarely matched up and most grocers received their monthly shipments of ration goods without regard to how much of their stock had been sold. Under the smart card system, the transaction is recorded at the point of sale, and both the customer's smart card and the grocer's smart card system are updated automatically. Only after the grocer's transactions have been downloaded by the MSS are additional inventory purchases authorized. The benefits of better record-keeping help to reduce costs by better managing supply and delivery of rationed products while at the same time improving oversight to reduce fraud.

¶4. (U) Kaptan told Econoff that in the pilot governorates implementation of tracking via the ration smart cards had reduced demand by 20%--probably representing the amount that

was previously being skimmed off the top of the paper-card system. When rolled out nationwide, this could potentially save the GOE over LE 180 million (\$32 million) annually. In addition to better food ration delivery, Kaptan pointed out this pilot program is also being used to deliver certain government pensions. The recipients of these pensions are able to take their smart cards to the post office each month to receive their payments.

¶ 15. (U) Implementation of smart card infrastructure could ultimately enable the GOE to deliver subsidized food products through virtually any grocery store rather than through the specialized ration products and government-owned stores. In addition, any future implementation of a cash transfer system to replace the ration regime could be more easily facilitated. According to Kaptan, these types of initiatives are not in current MSS planning. She pointed out that there are over 17,000 ration-card groceries in Egypt, and there is no plan to shut them down. The goal, she said, of the smart card implementation is efficiency rather than structural change.

¶ 16. (U) Food subsidies are a tremendous budget line for the Egyptian government--amounting to over \$3.1 billion last year--and the leakage from the system is astounding. There are no reliable estimates for the amount of subsidized food that is stolen or sold at prices higher than the subsidized rate, but even the government admits the problem is widespread. In a recent example, in mid-October the press reported that Egyptian customs officials had seized three containers containing 55 tons of subsidized rice that was being exported to Kuwait.

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¶ 17. (U) It is important to note that the subsidized bread program remains untouched by the current initiative. Badly in need of reform, the subsidized bread program is politically sacrosanct in Egypt. This program, which is managed separately from the food ration program, is available to all Egyptians regardless of their economic situation, and represents around 70% of the government's expenditure on food subsidies.

¶ 18. (U) Comment: There is tremendous sensitivity around the issue of subsidies in Egypt. In 2007, President Hosni Mubarak called for a national dialogue of subsidy reform, though there has been little follow through. Most government and private sector economists agree that reducing the fiscal burden of subsidies is a necessity. There is also substantial consensus around better targeting of benefits to make sure that the subsidies are reaching the intended recipients. Initial results of the smart card system for food subsidy delivery are positive, and the resulting reduction in waste appears very substantial. By putting the smart card infrastructure in place, the government will be able to collect much better data to support delivery and targeting of subsidies and may have more flexibility as it tries more innovative ways of providing much needed assistance to Egypt's poor. That said, much of the heavy lifting of subsidy reform remains to be done.

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